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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 06/25/09

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ARTICLES:

(1) DPJ Secretary General Okada to U.S. Undersecretary of Defense Fournoy: "The party will aim to revise SOFA"

JIJI Online (Full)
June 25, 2009

Democratic Party of Japan (DPJ) Secretary General Katsuya Okada met with visiting U.S. Undersecretary of Defense Michele Flournoy at party headquarters yesterday. In the meeting, Okada indicated that if the DPJ takes the reins of government, it will address such challenges as consolidating and reducing the U.S. military bases in Okinawa, as well as reviewing the Status of Forces Agreement (SOFA). He said: "Japan-U.S. relations are still in the shadow of the last war that ended 64 years ago. In order to stabilize the bilateral ties on a long-term basis, it is necessary to review them."

Okada also asked the undersecretary for her cooperation in arranging a meeting between DPJ President Yukio Hatoyama and U.S. President Obama, remarking: "If a change of government takes place, the top leaders of the two countries should meet first to establish a

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relationship of trust."

In response, Flournoy tried to restrain the DPJ's intention to review the agreed plan to relocate the U.S. Marine Corps' Futenma Air Station (in Ginowan city, Okinawa Prefecture). She said: "If we drop (the current relocation plan), we will lose leverage in resolving the Okinawa issue, resulting in a serious blow to our alliance."

(2) Governor in prefectural assembly interpellations says, "Relocation of Futenma within prefecture inevitable," dismissive of DPJ plan

OKINAWA TIMES (Page 2) (Full)
June 25, 2009

Interpellations started on June 24 in the Okinawa prefectural assembly regular July session. In response to the Democratic Party of Japan's (DPJ) assertion that it will discuss the option of moving Futenma Air Station out of the prefecture with the U.S. side, Governor Hirokazu Nakaima expressed a dismissive view, saying: "Moving it to a location outside the prefecture is the best option, but in view of past developments in talks on U.S. force realignment, such seems difficult. In order to eliminate danger at the earliest possible time, relocation within the prefecture is unavoidable." He was replying to questions from Atsushi Sakima of the Liberal Democratic Party and Katsuo Tome of the Social Democratic Party/Goken Network.

About the four-party talks to discuss promotional measures with three districts (Henoko, Kushi, and Toyohara) in Nago's Kube, the planned relocation site for Futenma Air Station, Okinawa Governor's Office Director Yoshiyuki Uehara said, "We think it is necessary for the central government to take steps, such as measures for promoting local economies to reduce burdens, for areas that will bear new burdens because of U.S. force realignment." He also explained that for the establishment (of the four-party talks), the prefectural government will continue making adjustments with the Okinawa Defense Bureau, Nago, and affected municipalities.

Planning Department chief Yoshihisa Kawakami offered the following projection about a possible effect on the prefectural economy by the supplementary budget in the emergency economic measures: "Expenditures for related facilities, excluding the addition to the

fund in the next supplementary budget and beyond, will total 30.7 billion yen, and there will be 48.4 billion yen of an economic effect. This will increase the economic growth rate by 0.7 points."

He also showed a projection that 3,700 jobs will be created in a year and the unemployment rate will be reduced by 0.6 points. There were in response to a question from Yoshihiko Yoshimoto of the LDP.

Regarding the basic concept on the modalities of prefectural hospitals that show a direction of the reform of prefectural hospitals, prefectural welfare and health department chief Keiko Okumura indicated that the prefectural government will formulate by the end of fiscal 2010 the contents and the scope of policy-related medical services to be provided by the prefecture and the basic policy on a fiscal burden. She said, "We will sort out basic thinking and make adjustment with organizations concerned, such as hospitals." Okumura was responding to a question from Mio Nakamura of the SDP/Goken Net.

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About the reason why members landed in an area outside the provided water area in the parachute drop training on Tsukenjima Island on June 11, Governor's Office Director Uehara explained, "According to the U.S. military, they were blown away by gusty winds."

He also indicated that about the cancellation of the training planned in Oura Bay for June 18, there was a reply saying that the U.S. military gave consideration to a peace praying event around Camp Schwab in addition to bad weather. This was in response to Tome.

(3) Kadena base noise marked a record 267 times on end-of-battle memorial; A sharp rise in engine adjustments; 324 times, third highest, on June 22

RYUKYU SHIMPO (Page27) (Full)
June 25, 2009

Kadena

The acoustic meter, installed by Kadena Town in the town's Yara district to measure noise from Kadena Air Base, showed that noise exceeded 70 dB 324 times on June 22, the third highest since the town began measuring noise in 1999. On June 23, noise exceeded 70 dB 267 times, the highest ever on the anniversary of the end of the Battle of Okinawa. The level of noise in the town has increased in June. As of June 23, the number of average daily loud noises reached 134, far greater than 110 recorded in fiscal 2008. The town has received complaints, such as irritation, from local residents.

It is the third time that noise has exceeded 300 times per day, with the latest being 315 times in January 2005. In September 1999, noise marked a record 329 times. The number of roars of noise on the end-of-the-battle anniversary was always smaller than that of other days due to the stipulation in the 1996 Japan-U.S. Joint Committee aircraft noise regulations requiring U.S. forces to give consideration to keep aircraft flights to a minimum. In fiscal 2008, loud noise marked only 49 times that day. It is the second time that the number exceeded 200 since fiscal 2005.

About the reason why noise has increased, an official of the town's base affairs department said:

"It is partly because of an increase in training by the aircraft from outside Okinawa, including the F-22s. The biggest reason is because there has been a huge increase in adjusting engines by aircraft in June. Fighters make less noise when adjusting engines than when taking off from the base, but the process lasts longer, and many residents find it distressing. We will send a letter of protest to Kadena Air Base as early as this weekend."

Of the 267 times recorded on the end-of-the-battle anniversary, 258 times that marked between 70 - 80 dB are believed to have resulted from the adjustment of engines. As for noise on June 22, 258 times seem to be attributable to engine adjustments. The town's base

damage desk has received calls from local residents complaining that noise from the base that exceeded 200 times for two consecutive days was unbearable and irritating. A man of Yara said: "On June 22 and 23, it was so noisy that I could not do what I had to do. They were my days off and it was really annoying."

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(4) Aiming at global scale alliance on 50th anniversary of conclusion of revised U.S.-Japan Security Treaty

YOMIURI (Page 13) (Abridged slightly)
June 24, 2009

Michael Schiffer, deputy assistant secretary of defense for Far East Asia

The recent nuclear test, missile launches, reckless and provocative words and acts by North Korea have again given the impression that in order for the international community to address pressing issues, cooperation in a form in which Asia participates and displays leadership is indispensable. Pressing issues include stopping the proliferation of weapons of mass destruction, strengthening the global economy, dealing with the climate change problem, and taking steps to prevent pandemics.

The U.S.-Japan alliance is a cornerstone of American policy in the Asia-Pacific and is a foothold for the United States to again strengthen its involvement in Asia. Based on such common values as democracy, the rule of law, human rights, and the free-market economy, the United States and Japan, as the world's two richest democracies, share the common interests of promoting stability and prosperity in Asia and the world. In the world today, it is difficult to find two countries that fundamentally trust each other as deeply as the United States and Japan.

In order to strengthen lasting and true security cooperation, it is essential to have interoperability at all levels. The force readiness of the alliance is necessary to meet the challenges resulting from the new security environment.

We were able to fully prepare for and deal with (North Korea's) launch in April of a Taepodong long-range ballistic missile. Such was possible because both the United States and Japan have invested in a missile defense system, shared information, and perfectly coordinated their policies. The United States has promised to provide the necessary capabilities to defend Japan.

Close cooperation between the United States, Japan, and regional partners will help North Korea abide by its pledge of denuclearizing itself in a complete and verifiable manner. It will also form the basis for the DPRK to earnestly address the issue of Japanese abductees that is indispensable for an ultimate peaceful solution.

To revitalize the alliance so that it can face challenges over the next 50 years, the realignment of U.S. and Japanese forces, especially those in Guam and Okinawa, must be fully implemented.

Both the United States and Japan will review their respective key strategies from this year through next year. For instance, reviews on the U.S. side include the Quadrennial Defense Review (QDR), the Nuclear Posture Review (NPR), and the ballistic missile defense review. On the Japanese side, there is a review of the National Defense Program Guidelines. Close talks will help the two countries incorporate more strategic approaches into those final documents and share views on such extremely important tasks as nonproliferation.

Next year marks the 50th anniversary of the signing of the revised U.S.-Japan Security Treaty. This will serve as a good opportunity to celebrate what the alliance has accomplished and to broaden it into

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a truly global-scale alliance. It may be overly ambitious, but by pursuing those challenges that the alliance can overcome, we will be

able to create a strategic environment in the Asia-Pacific region, make clear the United States' involvement in the defense of Japan, and continue strengthening each other's capabilities as allies.

In view of the new regions and the realities in the world the alliance is facing, the United States cannot, and should not, take the management of the alliance with Japan for granted. As long as Japan has a solid future vision and the will and ability to play a leading role in creating a peaceful and prosperous Asia, not only the United States but the international community as well will gain tremendous benefits from close, productive, and cooperative relations with Japan. The United States must refocus its energy on U.S.-Japan cooperation on a global scale.

(5) "Seiron" column: Do not frustrate U.S. experts on Japan again

SANKEI (Page 7) (Slightly abridged)
June 25, 2009

Hisahiko Okazaki, former ambassador to Thailand

Gesture of goodwill from Campbell and others

The Obama administration has shown tremendous goodwill toward Japan.

This was evidenced by Secretary of State Hillary Clinton's testimony at her Senate confirmation hearing, the fact that she chose Japan as the first country she visited after taking office, and that Prime Minister Taro Aso was the first foreign leader President Barack Obama met after his inauguration.

This is an epoch-making development in Japan-U.S. relations attesting to the success of diplomacy on both sides. As a matter of fact, both Deputy Secretary of State James Steinberg and Assistant Secretary of State for East Asia and the Pacific Kurt Campbell have both made remarks emphasizing that these are proof of the importance the Obama administration attaches to Japan.

However, the Japanese media at that time mostly focused on reporting on then Minister of Finance Shoichi Nakagawa's embarrassing behavior at the G-20 and failed to convey the United States' gesture of goodwill adequately to the public.

In my opinion, the Japanese media have also demeaned themselves in this incident.

The Obama administration's favorable consideration given to Japan is not only demonstrated in its gestures, but also expressed clearly in the lineup of senior officials in charge of East Asian affairs. While there are many Americans who know Europe and the West well, few are knowledgeable about Asia. Policymaking tends to rely very much on the expertise of officials responsible for East Asia.

Japan should think of contributing to the alliance

During the first half of the Clinton era, when frictions between Japan and the U.S. were serious, officials in charge of East Asia in the White House and the State and Defense Departments were all China experts. There was not a single person knowledgeable about Japan, so

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Japan was helpless.

However, the present chief policy-maker on East Asia at the Department of Defense is Assistant Secretary Wallace Gregson, who used to be the Marine Corps commander in Okinawa and who knows Japan well. Moreover, Kurt Campbell, who places high priority on the Japan-U.S. alliance, is slated to be the new assistant secretary of state for East Asia and the Pacific.

This is good news for Japan. On the other hand, what can Japan do in this situation?

Actually, the Pacific Forum and three other groups held four seminars attended by more than 50 Asia experts last year. The result

of the discussions was published in February as new proposals on Asian policy for the Obama administration. It is said that Campbell exercised strong leadership in the drafting of the report.

In one passage, the word "enough!" was used. What it is meant was that since the United States is committed to the alliance, Japan should not be talking about such things as "Japan passing," and be so wishy-washy. Instead, it should think of ways to contribute to the alliance on its own.

Campbell is one of the few experts on Japan from the Democratic Party camp. During the last days of the Clinton administration, he reportedly was fed up with the stream of Japanese politicians and business leaders always calling on him.

Expectation on settling the issue of right of collective self-defense

However, in his recent hearings in the Senate, he did not seem to have been affected by this tedious experience. He stated in no uncertain terms that the Japan-U.S. alliance is at the center of U.S. policy in Asia and that the U.S. should make this guarantee to its Japanese friends.

Shortly after the inauguration of the Bush administration, Deputy Secretary of State Richard Armitage proposed a vice ministerial dialogue to strengthen the bilateral alliance. At that time, the Japanese Ministry of Foreign Affairs was unable to respond to this effectively, so Armitage left office in disappointment. In contrast, his successor Robert Zoellick started the U.S.-China vice ministerial dialogue, which was hugely successful from the first round. China immediately obtained the status of a "stakeholder."

This time, the U.S. side is again hopeful that moves to help propel the Japan-U.S. relationship forward will be made under Campbell and Gregson's watch.

The political situation in Japan is such that the state of affairs after the Aso cabinet steps down remains completely uncertain. But at least, the Aso cabinet should still be in power when Campbell visits. Even during the little time left, we hope that meaningful exchange of views with the new Obama administration will take place, and the course for the strengthening of the alliance in the future, even just portions of it, will be laid down for future administrations. Otherwise, the opportunity presented by the Campbell-Gregson team, as well as the team made up of James Jones, Hillary Clinton, and Robert Gates may be wasted, and they may become frustrated with Japan at an early stage.

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It is also becoming evident what Japan needs to do.

The recent statements of Japan experts in the U.S. show that although they had been coy in the past about their expectations about Japan using the right of collective self-defense, they are now speaking up on this subject. Next will come the issue of Japan boosting its defense capabilities in order to maintain the deterrence of the bilateral alliance.

The immediate issue for the two countries is the realignment of military bases, but this is a complicated issue linked to local circumstances in Okinawa. Certain aspects of the issue cannot be resolved by the central government's policies, so prospects remain unclear. While it goes without saying that Japan needs to make efforts to resolve this problem, this does not mean that the more fundamental questions of the right of collective self-defense and Japan's need to increase defense spending can be deferred.

(6) "In My Opinion" column: Debate on enemy base strike capability should not be handled thoughtlessly; synchronize this with Japan-U.S.-ROK cooperation

Akihisa Nagashima; Democratic Party of Japan (DPJ) deputy secretary general

The Liberal Democratic Party (LDP) National Defense Division has included the possession of "enemy base attack capability" using cruise missiles and other weapons in its recommendation for the National Defense Program Guidelines to be compiled in late 2009. It can be said that this reflects the growing threat perception in Japan after North Korea fired its missiles and conducted its nuclear tests, despite the international community's repeated demand to exercise restraint.

However, the fact that even proposals were made for "preventive preemptive strikes" in a situation where there is no imminent threat, which would be a violation of international law, indicates that reaction has been overly emotional. This writer recognizes the need to discuss "defensive preemptive strikes" premised on an imminent crisis. However, Japan should not take action unilaterally, but should take cautious steps within a framework of cooperation with the U.S. and South Korea.

Probably in reaction to discussions in the LDP, U.S. Secretary of Defense Robert Gates made remarks shortly before the DPRK missile launch (in April) to the effect that the missile "will not be intercepted unless it is targeting the United States." If the U.S. will not intercept missiles targeting Japan, this amounts to the U.S.' abandoning the exercise of its right of collective self-defense, which means the disintegration of the underlying assumption of the Japan-U.S. security alliance. In which case, it is understandable that there are advocates of Japan dealing with the situation on its own.

For sure, an effective combination of "repulsive deterrence" to ward off attacks and "punitive deterrence" to retaliate against attacks is necessary for perfect deterrence. The former requires the improvement of missile defense while "enemy base strike capability"

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is one form of the latter. While this capability has been regarded as constitutional and falling within the scope of the exclusively defensive policy based on the interpretation Prime Minister Ichiro Hatoyama gave to the Diet in 1956, Japan has never attempted to possess offensive weapons. Nevertheless, in the face of a growing threat, Japan cannot also afford not to do anything about the imperfect deterrence.

However, enemy base attack capability is not a simple matter. Most of North Korea's mid-range missiles, the Nodong, which encompass almost all of Japan in their range, are fired from underground silos and are technically very difficult to detect. Even if Japan is lucky enough to destroy a few missiles, it would not be able to deal with missiles fired in quick succession. Furthermore, the LDP's rash proposal on Japan possessing enemy base strike capability unilaterally is risky in that it may undermine the basic concept of Japan-U.S. division of labor under the alliance, where "the Self-Defense Forces serves as the shield and the U.S. forces Japan as the spear."

Uncoordinated efforts to reinforce deterrence in Japan, the ROK, and the U.S., even if in the name of responding to North Korea's threat, may give rise to mutual distrust. It is important for Japan, the ROK, and the U.S. to pay attention to the following two points and consult closely in building deterrence, as well as coordinating North Korea policy:

First, the implementation process: Right now, denuclearization and deterrence through conventional weapons is being discussed as the strategy to counter the DPRK's nuclear armament in the ROK. Japan should support the ROK's efforts to lift the restriction imposed by its agreement with the U.S. limiting the range of its missiles to 300 kilometers. Simultaneous with this, Japan should also enter negotiations with the U.S. on acquiring Tomahawk cruise missiles. The acquisition of F-22 fighters, which possess offensive capability and are able to evade radar detection, should be considered in this context.

Second, the timing for acquisition: The "Double-Track Decision" that led to the complete elimination of NATO's theater nuclear forces from the second half of the 1970s to the 1980s will serve as a good model. That is, Japan, the ROK, and the U.S. will negotiate with North Korea to discontinue its development of nuclear arms and ballistic missiles by 2012, which is an important historic date for this country. At the same time, it will proceed with trilateral talks on the possession of cruise missiles and other weapons for enemy base attack, and will go ahead and deploy such weapons if North Korea does not change its behavior.

In any case, the purpose of the reinforcement of deterrence is security. We should avoid the folly of causing regional instability instead in our frenzy to acquire offensive weapons.

(7) Indirect political donations: Yosano offered Orient Trading his congratulations upon company's anniversary history book

MAINICHI (Page 29) (Slightly abridged)
June 24, 2009

Taichi Yamamoto, Takua Ito

Finance Minister Kaoru Yosano, who concurrently serves as state

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minister of finance services and state minister of fiscal policy, was found to have offered his congratulations on the 40th anniversary of the founding of Orient Trading, a commodity futures trading company, in Shinjuku Ward, Tokyo, in its history book published in 2000. In the book, Aso wrote: "Orient Trading is the linchpin of the solidarity of the commodity futures trading industry." Orient Trading played the central role of an indirect political donation scandal. Yosano served as international trade and industry minister (MITI), the predecessor of the Ministry of Economy, Trade and Industry (METI), which oversees the commodity futures trading companies. Later, as minister in charge of financial services, he made replies in Diet deliberations on a commodity futures trading bill. A secretary to Yosano told the Mainichi Shimbun that the Orient Trading owner was "a goodwill supporter," who had backed Yosano for a long time since he was young. The secretary ruled out the relations between Yosano's Diet replies and political donations from Orient Trading.

The commodity futures trading law was amended in 1998 to drastically relax regulations. The commodity future trading companies welcomed the sweeping relaxation of the regulations. Yosano was serving as MITI minister at a time when the law was amended.

Yosano extended in 2000 his congratulations to Orient Trading with his title as former MITE minister and Lower House member. He gave words of encouragements in the history book, writing: "As an asset management arena for the public, opened commodity future trading is important. I expect the company to become a cornerstone for development of the commodity future trading industry."

Orient Trading's political organization called the Study Group on Political and Economic Policies was established in 1981. Yosano designated the political group as his support organ for 21 years since 1981. He received donations from the group in 1998 and 1999 when he served as MITI minister. With regard to this, Yosano's secretary said: "At that time, since we could not collect a lot of funds, we appreciated the 250,000 yen in donations (per month)."

The Financial Instruments and Exchange Law, enacted in 2006 when Yosano was state minister of financial services, excluded commodity future trading from the subjects to the regulation. During Diet deliberations on the legislation, Yosano said: "(Commodity future trading) is not a game, but it greatly supports production and distribution," indicating a cautious stance toward expanding targets to the regulation. Aso's secretary emphasized: "Yosano's Diet replies were not intended to support the commodity futures trading industry. There was nothing to do with the political donations."

However, a former Orient Trading executive said: "If donations are prohibited, the company will not carry out business. A former group

company executive commented: "I think that the commodities futures industry at that time had many troubles, so the industry wanted to change the law to its advantage."

Orient Trading owner Yukio Kato refused to respond to a Mainichi Shimbun's interview, citing an illness. A former Study Group on Political and Economic Policies accountant said: "The entity made donations to politicians who had good ties with Kato. Kato is the only person who knows the details."

Commentary

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Shusaku Sugimoto

The tax system that a portion of donations to a political support group is deducted from the income tax imposed on the donator was incorporated in a revision of the Special Taxation Measures Law in 1975. The original purpose was to promote individual political donations for political activities.

However, a group of five companies, including Orient Trading, abused the system. The group deducted almost forcibly the money from the salaries of executive members to let them make donations to the Study Group on Political and Economic Policies. Finance Minister Yosano and former Administrative Reform Minister Yoshimi Watanabe received a lot of political donations. Their responsibility for neglecting the illegal management of their support entity is serious.

One executive member said: "I was unhappy with the mandatory deduction from my salary but I unwillingly followed the company, as I was told that contributions were tax exempt. It can be said that the money was corporate contributions in effect, not the donations made by individuals." Nishimatsu Construction's back-door political donations through dummy political organizations were subject to a crackdown by the special investigation squad of the Tokyo District Public Prosecutors Office. A similar donation case by Kumagai Gumi Co. was discovered by the media. It has become evident that the pattern of evasions of the law is rampant in Japan.

According to the Internal Affairs and Communications Ministry, Diet members' political organizations whose political contributions are tax exempt number about 640, all of which are overseen by the internal affairs ministry. Political organizations are designated by politicians, but there are no limits to the number of political organizations designated. Many Diet members have several political entities. There must be political organizations that have made illegal contributions.

There are moves to amend the law aiming at a complete ban on corporate donations and at a preferential tax system. However, since the abuse of the preferential system was clarified this time, a drastic reform to prevent loopholes is required.

(8) Fiscal policy guidelines for 2009 pushing back reforms, abandoning policy course

NIKKEI (Page 3) (Excerpts)
June 24, 2009

The government adopted in a cabinet meeting yesterday a set of economic and fiscal policy guidelines for fiscal 2009. The guidelines put off the set goal of reconstructing the nation's financial system and set aside the policy of curbing spending on social security. The guidelines did not step into regulatory reforms to restore the nation's economic strength, underscoring a switch from the structural reform policy line.

Fiscal reconstruction goal, plan to curb social security costs watered down

Setting "security, vitality, and responsibility," as its subtitle, the set of guidelines demonstrated the government's determination to maintain its responsibility to restore the nation's fiscal health,

while pledging to boost its growth potential. But in the 2009 policy package, reform efforts were considerably watered down.

In a press conference held after the guidelines were adopted, Finance Minister and Financial Services, Economic and Fiscal Policy Minister Kaoru Yosano indicated that the government will not curb the natural increase in social security costs in compiling the fiscal 2010 budget.

The policy of curbing a natural increase of 220 billion yen has been inserted in the annual policy guideline since 2006 under the Koizumi administration. Although this goal was attained only in the fiscal 2007 budget, the Finance Ministry has so far managed to go along with this policy even by disbursing funds from special accounts, fearing that a removal of the policy could generate calls for more spending on public works projects and defense policies.

Yosano has emphasized that the government will not collapse the framework of expenditure reform, but the government has undoubtedly become less eager (about reforms). Tokyo University Professor Toshihiro Ihori commented: "Since the government compiled a huge-sized supplementary budget, it should have included a plan to review expenditures as its exit strategy in the 2009 guidelines. It is now ambiguous who should take responsibility for restoring the nation's fiscal soundness."

Regarding how to establish the foundation for economic growth, the guidelines gave no clear-cut vision. For instance, no progress was made on concluding economic partnership agreements (EPA) with Asian and other countries, although such partnerships are becoming more important as a driving force to maintain the nation's growth potential. In the agricultural sector, too, the guidelines did not incorporate such reform measures as reviewing the policy of cutting rice acreage.

In the medical and nursing sectors, which have high potential, the guidelines proposed creating 300,000 jobs over the next three years but stopped short of mentioning such specific measures to achieve the goal as a relaxation of restrictions on new market entrants. In preventing environmental contamination and declining birthrate, some signs of progress were observed, but any signs of the government's determination were nowhere in sight in the guidelines.

When the annual economic and policy guidelines were drawing much attention, government agencies were eager to put their policies in the guidelines in an effort to secure budgetary allocations. In preparations to win a forthcoming general election, however, a senior official of a government economic agency said: "The guidelines for this fiscal year might turn into a scrap of paper. So it is becoming less necessary to pour our efforts in it."

The 2009 guidelines noted that the government will reduce debts held by central and local governments and steadily lower the rate of debts to gross domestic product (GDP) starting in the early 2020's. The government also decided to give up on its efforts to achieve a surplus in the primary balance by fiscal 2011. Instead, the guidelines inserted the goal of halving the percentage by fiscal 2013.

To attain that goal, a bumpy road lies ahead. The Cabinet Office came up with a severe projection in its fiscal estimate, noting: "It will be necessary to gradually raise the consumption tax by 7

percent starting in fiscal 2011 in order to achieve the goal." JP Morgan Securities chief economist Masaaki Sugano said: "An about 3 PERCENT as the nominal growth rate is overly high. No prospects are in sight for a consumption tax hike, and no progress has been made in slashing expenditures, either. It is unlikely for the goal to be attained." While losing momentum for reforms, the government will start the process of compiling a state budget for next fiscal year.

This kind of guidelines unnecessary

By Akio Fujii, a Nikkei editorial committee member

The economic and fiscal policy guidelines for fiscal 2009 represent the current state of Japan, which is just drifting without presenting its future policy course.

The administration of prime minister Junichiro Koizumi started forming the government's annual policy guidelines as the foundation for promoting its planned structural reforms such as disposal of nonperforming loans, privatization of postal services, and reform of government-affiliated financial institutions.

Recently, however, attention has been focused only on the propriety of the 2006 guidelines, which proposed cutting expenditures on social security, and no discussion has been conducted on structural reforms.

In final coordination between the government and the ruling parties, attention was focused on what to do about the target of curbing a natural increase in social security costs by 220 billion yen, with such questions as how to effectively use social security expenses and how to finance the costs were pushed backstage.

In the debacle over the reappointment of Japan Post Holdings President Yoshifumi Nishikawa, as well, the focus of attention in debates was not on the contents of postal privatization but on the propriety of Nishikawa staying on.

With an eye on the upcoming general election, the government has given priority to policies to ensure secure society by disbursing money to the people while setting aside necessary systemic reforms that require the government to make difficult efforts to persuade the people. The government, though, has not presented a blueprint regarding the financial resources to support such measures and how much the people will have to pay to that end in the future. Not only the government and the ruling parties but even the Democratic Party of Japan, which is aiming at grabbing political power in the next election, appeared to be resorting to this election strategy.

Agricultural reform measures alone drew attention as apparently real reform in the 2009 guidelines. Agriculture, Forestry and Fisheries Minister Shigeru Ishiba tried to step into such reforms as a review of the rice acreage-reduction policy, but his idea was pushed away due to opposition from the agriculture policy clique in the Diet prior to the election.

The global economy has emerged from its worst period, and money has gradually come back to the market. But the government remains unable to come up with reforms necessary for the people and to present a future vision. Investors will surely abandon such a country in the future.

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(9) Probe into Aso administration: Measures to deal with greatest economic crunch of the century; Extra budget compiled in a manner that makes over 10 trillion yen a foregone conclusion

TOKYO SHIMBUN (Page 2) (Full)
June 25, 2009

Prime Minister Taro Aso on April 6 called in Finance Minister Kaoru Yosano to the Kantei and ordered him to compile a fiscal 2009 extra budget to finance a package of additional stimulus measures.

He asked Yosano, "I would like you to compile a budget that exceeds 2 PERCENT of the gross domestic product (GDP)." The reason why the prime minister ordered that the size of the extra budget should be more than 2 PERCENT of the GDP" is clear.

Participants in the emergency summit, held in London joined by 20 countries, agreed to implement economic stimulus measures totaling 5 trillion dollars (roughly 500 trillion yen). Aside from that, the U.S. had asked various countries to take fiscal action involving

more than 2 PERCENT of their GDPs." In response, the prime minister came up with an approach of placing top priority on international cooperation.

Japan's GDP is approximately 500 trillion yen, and 2 PERCENT of this comes to 10 trillion yen. The compilation of the largest-ever fiscal 2009 extra budget topping 10 trillion yen got under way, based on that calculation. It was thus compiled in a manner that makes over 10 trillion yen a foregone conclusion.

In compiling the budget, Yosano stressed his intention to aim for wise spending. However, ...

The extra budget totaling 13.9 trillion yen was compiled in the same way. One trillion and six hundred billion yen was appropriated for the creation of a low carbon revolution, of which 370 billion yen was earmarked for 100,000-yen assistance for the purchase of a brand-new "green car." Two hundred and ninety billion yen was earmarked for the dissemination of green home electronics under an eco-point system. It appears that bold investment was adopted for environmental measures. However, this system sounds paradoxical because those who purchased a large TV set, instead of an eco-friendly small TV set, gets more points. Kazuo Mizuno, chief economist of Mitsubishi UFJ Securities, pointed out, "Environmental measures are mixed with stimulus measures."

The extra budget also included funds appropriated to suit government agencies. Various government agencies' budgets for the purchases of home electronics and green cars and the installations of solar energy generation panels totaled 381.2 billion yen.

Budgetary funds were also appropriated to organizations, which had been set to be downsized, consolidated or reorganized in the reform of independent administrative agencies, virtually serving as a "life-support" measure for them.

The extra budget also included the construction of a National Media Art Center (tentative name) known by the name of hall of anime and manga at the cost of 11.7 billion yen. Even the ruling parties are calling for freezing that budget as a symbol of wasteful spending.

In the extra budget, 4.3 trillion yen or approximately one-third of
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the total funds was appropriated for reserves for 46 funds.

The implementation of those budgets will be put on the backburner to be used in fiscal 2010 and after. This is in response to the prime minister's wish that budgetary funds should be appropriated over multiple years. This indicates that the government did not have resourcefulness to use up those funds within the fiscal 2009.

The assessment of the compilation of an extra budget is lenient, compared with the case of an initial budget. In addition, top priority for the extra budget this time was it should exceed 10 trillion yen. The outcome was a list of spending items that are nowhere near "wise."

The opposition camp, such as the Democratic Party of Japan (DPJ), pursued the government, saying that the extra budget was pork barrel. However, since the DPJ at the time was at the mercy of such inward-focused arguments such as the resignation of then president Ichiro Ozawa and the consequent presidential election, it was unable to fully pursue the matter in the Diet. Opposition parties are greatly responsible for the contents of the extra budget.

Of the 13.9 trillion yen extra budget, approximately 10 trillion yen is to be financed with public bonds, that is to say, borrowings. Is what will come next a hike in the consumption tax, which is the prime minister's pet argument?

(10) Interview with JICA President Sadako Ogata: Africa is also a neighboring country; fulfill pledge to double ODA; infrastructure important for peace building

June 25, 2009

Interviewer: reporter Yasura Komori

The development of Africa has been in the limelight after the Tokyo International Conference on African Development (TICAD) held in Japan last year and the Hokkaido-Lake Toya Summit, where there were lively debates on measures to reduce poverty and develop economies. However, the situation in Africa has been deteriorating over the past year. How should aid be provided in the future? We asked President Sadako Ogata of the Japan International Cooperation Agency (JICA), the body in charge of Japan's aid.

-- Can you tell us about the state of Japan's aid to Africa?

Ogata: When I took over as president six years ago, the ratio of aid to Sub-Saharan Africa was 14 percent, but this has increased to 26 percent last year. JICA's Africa division has become the largest division. For sure, one aspect of this is that the need for aid in Asia has diminished thanks to economic growth.

The government has made an international pledge to double ODA to Africa by 2012, so it should fulfill this pledge.

-- The world economic situation has worsened in the past year, and we have been hit by ups and downs in the prices of resources, which form the basis of development, and food crisis. What is your focus at present?

Ogata: First, in order to achieve the Millennium Development Goals

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(MDGs) by 2015, we will concentrate our preventive measures on areas where the economic situation is deteriorating.

Second is the building of infrastructure to make social development sustainable. We need to think about investment to maintain the momentum of economic growth and how to continue investment in infrastructure in order to prevent the economy from deteriorating.

-- TICAD IV last year was a great success. This particular TICAD has been complimented for having a solid follow-up system to discuss progress after the conference, unlike the previous three sessions.

Ogata: A ministerial level follow-up meeting was held in Botswana in March. A meeting on the "Coalition for African Rice Development (CARD)," a program for doubling food production, rice production in particular, will be held in Tokyo this month. Representatives from 12 countries, including those from Asia, will hold discussions. This can also be considered a major follow-up step.

I was invited to TICAD twice as the UN High Commissioner for Refugees. The discussions were lively but there was no follow-up mechanism. The JICA Africa division has also created a "follow-up operations office" to check the effect of aid and the donors' commitment. I think this will contribute to full-fledged development aid.

-- While JICA is putting a lot of effort into African aid, there have been doubts about Japan's aid to Africa.

Ogata: I think although the Japanese people's consciousness has changed dramatically compared to the past, there is still the underlying thinking: "Why bother with faraway Africa and not the close neighbors in Asia?" However, all countries are our neighbors. The people of the second economic power in the world need to play a suitable role. It is not acceptable for Japan to seek its own stability when there are countries facing crisis and when people are suffering.

Countries and people's consciousness need to change in an era of inter-dependence where people and goods go around the world. The thinking of Asian countries has also changed. China, the ROK, Malaysia, and Singapore are all making inroads into Africa. This is probably because they have come to think of their own prosperity in the context of a much more extended spatial concept.

-- China has increased its aid to Africa tremendously and is being criticized for using this as part of its unprincipled resources diplomacy under the principle of non-interference in internal affairs.

Ogata: China, for sure, is thinking of its own place in the world. Japan does not interfere in internal affairs as well. In Ethiopia, Japan is building the highways, while China is building the circular roads in the cities. I think it is desirable for both countries to cooperate and give full play to each one's strengths. It is also important for aid donors to share information.

-- Perhaps one reason for the lack of support is because the effects of aid to Africa are not visible.

Ogata: There were endless conflicts in Africa in the 1990s. It was a difficult time. Even now, we are concerned about Congo or Sudan. But

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the situation has changed for the better. Countries like Mozambique and Tanzania, which used to be in very bad shape, have acquired governance ability. People who have moved the country have been elected as president.

The Organization of African Unity (OAU) became the African Union (AU) in 2002, and the African countries abandoned the principle of non-interference in internal affairs. They now think that each country should not be unconcerned about other countries. This is significant.

-- After the North-South civil war that lasted over 20 years ended in Sudan, aid that will contribute to peace building is being undertaken.

Ogata: While Sudan still has the Darfur conflict, JICA and other international aid groups have entered Juba, a major city in the south, at an early stage. We built infrastructure and provided occupational training for the refugees, which contributed to the stabilization of southern Sudan. The building of infrastructure is very important for peace building. We need to rush to the site, build the most suitable structures for the locality, produce results, and show hope.

-- Aid needs to be able to show results.

Ogata: International aid tends to be compared in terms of how much money was given. I think there should be more comparison of the results, and I would like to think of ways for doing this. It is important in a globalized world to proceed from a point to a plane and look at the results beyond the national boundaries at a regional level. It is also important to device methods of assessment from the standpoint of the aid recipients.

-- An announcement was made in 2008 on the merger of the yen loan sections of the Japan Development Bank. Does this mean that the methodology of aid is also changing?

Ogata: Yen loans are an attractive proposition; projects are possible even in small countries. A few years ago, the Rwandan ambassador said: "We want to become a country that does not receive money all the time and that is able to borrow and repay the loan." It is important for JICA officials in the field to see how aid is being used.

-- Lastly, how would you like to proceed with aid to Africa from now on?

Ogata: There are very few aid agencies in the world that engage in infrastructure building. JICA will take advantage of its strength and work on bilateral projects for roads, electricity, and so forth, while also cooperating with the World Bank and the African Development Bank.

In Asia, we have trained talented people through Japan's aid. We are now seeing cases of rice experts from Malaysia and Indonesia going

to Africa. One issue is how to cooperate with countries that have graduated from aid.

(11) Uniqlo, Unicharm to expand overseas operations

NIKKEI (Top Play) (Full)

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June 25, 2009

Leading manufacturers of daily goods are rapidly expanding operations outside Japan. Fast Retailing Co. has continued efforts to attain its goal of opening 100 Uniqlo casual wear stores annually in Asia. The company expects to see foreign sales almost overtake domestic sales in 2013. Unicharm Corp. has earmarked the largest ever amount of overseas investment funds in fiscal 2009. In fiscal 2012, foreign sales are expected to top domestic sales. These companies are aiming to emerge from the structure of being dependent on the domestic market, which is shrinking recently due to declining birthrate, mainly for internationally competitive businesses. Family Mart also expects to have more outlets overseas than in Japan soon. As it stands, industries that cater to domestic demands have speedily shifted their strategic bases to new growing markets.

Fast Retailing intends to break into the markets of Thailand, Malaysia, Vietnam, Indonesia and the Philippines within three years in accordance with its goal of annual openings of 100 stores in Asia alone, President and Chairman Tadashi Yanai said. The company eyes mergers and acquisitions (M & A) investment in the U.S. and Europe, but it intends to tap demand in Asia for low-priced, high-quality goods.

Uniqlo expects to post sales of 558 billion yen for the year ending August 2009, with only 37 billion yen generated overseas. But it aims to boost both domestic and foreign sales to around 800 billion yen in the business year ending August 2013. To that end, the company will open stores in Russia next spring and in Australia within three years. It also intends to open large stores in China. In the year ending August 2014, the company expects to see overseas sales surpass domestic sales.

Unicharm has earmarked 15 billion yen for investing abroad (10 billion yen for domestic investment) in fiscal 2009, up 50 PERCENT over the previous fiscal year. The company will build plants in China, Indonesia, India and Russia for mainstay paper diapers and sanitary products. Its overseas production bases will increase by 50 PERCENT to 13 sites.

Unicharm is the world's third largest group in this area, following Procter & Gamble Co. of the U.S. and Kimberly Clark Corp. of the U.S. Its overseas sales accounted for 37 PERCENT of its total in fiscal 2008 (with overseas sales totaling 129 billion yen). In fiscal 2011, the company anticipates the percentage will surge to 50 PERCENT (with the aim of posting sales of 225 billion yen).

Other major daily goods manufacturers are also shifting strategic points overseas. Shiseido Co. and Kao Corp. earned 38 PERCENT and 32 PERCENT overseas of their respective total sales in fiscal 2008. They have expanded production and sales mainly in Asia. Shiseido and Kao aim to increase the rate of sales overseas to over 50 PERCENT in fiscal 2017 and fiscal 2020, respectively.

Japan accounted for only 8 PERCENT of global gross domestic product (GDP) in 2008, down from 11 PERCENT in 2004. In contrast, such emerging countries in Asia as China and India saw their average rate shoot up from 8 PERCENT in 2004 to 12 PERCENT in 2008. All emerging countries, including Russia and Brazil, generated 31 PERCENT of global GDP, up from 21 PERCENT in 2004. Given this, there are apparently few prospects for growth for manufacturers that cater to the domestic market, for instance, for daily necessities

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and clothing, as long as they depend on domestic demands, as seen from the fact that the domestic market of paper diapers in fiscal

2008 was about 150 billion yen, a 5 PERCENT decrease from the level in fiscal 2003.

Other industries are also eagerly moving to tap demands in newly emerging countries. Family Mark, the third largest convenience store chain in the nation, has opened more stores in South Korea, Taiwan, and China. Of the M & A investment projects (worth nearly one trillion yen) Kirin Holdings Co. has decided to implement since 2006, 70 PERCENT are overseas projects. The company aims to place on influential company after another under its wings, in an effort to become a survivor in the global market.

ZUMWALT